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ABSTRACT

The second phase of a two-phase study of the condition and needs of the live professional theatre in America since the mid-1960's called for recommendations by an advisory group appointed by the National Endowment for the Arts. These recommendations, based on the data collected during the first phase of the study and on personal experience, as theatre professionals, of the advisory group members, concerned the following areas: professional theatre institutions, professional theatre personnel, increased accessibility, taxation, federal leadership, and further studies. Essentially, the federal government can and should take a strong lead in helping change the public perception that theatre can and should pay its own way. It should take a lead through corrective federal legislation to provide direct and indirect increased public support to professional theatre, and it should encourage appropriate legislative action by nonfederal centers of government. Also, the interrelationships among the not-for-profit and the for-profit theatres should be encouraged for the benefit of theatre as a whole, while the integrity of the motivation of each section should be recognized. Finally, the importance to American society of the multifaceted artistic and economic roles of theatre should be realized and become the basis of further studies. (HOD)

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THE CONDITION AND NEEDS OF THE LIVE PROFESSIONAL THEATRE IN AMERICA

PHASE II REPORT: RECOMMENDATIONS

Prepared for:

The National Endowment for the Arts
Washington, D.C. 20506

by:

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April 16 1979

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A. INTRODUCTION

1. Background

In May 1977, in response to a request from Congress, the National Endowment for the Arts contracted for a study of the condition and needs of the live professional theatre in America. The study was to be made in two phases. The first phase report was delivered to the Endowment in March 1978. It included four volumes: (1) the compilation in narrative and tabular form of the data collected, plus an analysis of the data; (2) a collection of statements prepared by varied theatre interest groups; (3) edited transcripts of four roundtable discussions with theatre professionals from around the country; and (4) an executive summary of the total Phase I report.

Phase II of the study called for recommendations by an Advisory Group appointed by the National Endowment for the Arts. These recommendations were to be based on: (1) the data collected during Phase I, and (2) the personal experience, as theatre professionals, of the Advisory Group members. The names of those serving on the Advisory Group, representing a broad range of theatre constituencies follow:

Mr. Harold Prince, Chairman
The Harold Prince Organization

Mr. Oscar G. Brockett
University of Texas

Ms. Hazel Bryant
Afro-American Total Theatre

Mr. Edward Corn
The Opera Company of Philadelphia

Mr. Robert W. Crawford
Consultant

Mr. Thomas M. Messer
The Guggenheim Museum

Mr. Lloyd Richards
National Playwrights Conference

Ms. Barbara Robinson
International Alliance of
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Mr. Donald Schoenbaum
Guthrie Theatre

Ms. Jean Burch Falls
Writer

Ms. Geraldine Fitzgerald
Actress

Mr. Gary Gisselman
Chanhassen Dinner Theatre

Mr. Donald Grody
Actors' Equity Association

Mr. Gerald Schoenfeld
Shubert Organization

Mr. Stephen Sondheim
Dramatists Guild

Mr. Luis Valdez
El Teatro Campesino

Mr. Harrison White
Harvard University

Mr. Peter Zeisler
Theatre Communication Group

The Advisory Group met seven times: (1) three meetings during the course of Phase I to review with the contractor's research staff the progress of their study and to suggest areas needing stronger focus or more detailed information during the short period of time available under the terms of the contract, and (2) four meetings to formulate recommendations to the Congress on behalf of the future of American professional theatre. All material amassed by the research staff and included in its Phase I report to the National Endowment for the Arts, as well as the personal input of the Advisory Group members, served as the base for the development of the recommendations included in this report (Phase II of the study).

2. The Scope of Our Enquiry

For purposes of this study, professional theatre was defined by the National Endowment for the Arts as "the live professional presentation of plays, with or without music, before an ... audience in the United States and its territories." The Endowment further directed that "both professional not-for-profit and commercial theatre are included in the definition and must be considered in the research project."

During the formulation of its recommendations, the Advisory Group studied in detail the statements prepared by theatre interest organizations (Exhibit I of Phase I Report) and transcripts of comments made by the 22 theatre professionals who participated in the Los Angeles and New York roundtable discussions (Exhibit II of Phase I Report). These two sources, as well as the Group's collective professional experience, provided vital additional information to the extensive data included in the body of the Phase I Report.

As indicated above, the charge from the National Endowment for the Arts was to investigate the needs of "both professional not-for-profit and commercial theatre." The charge did not include a study of the needs of avocational, community, or educational theatre. Therefore, the focus of the study and recommendations is on the needs of live professional theatre, for-profit and not-for-profit.

Professional theatre cannot, however, be divided simply into the two categories of for-profit and not-for-profit. Each has its own diversity. For example, the for-profit theatre includes not only Broadway and its national touring companies, but also large numbers of dinner theatres, the bus and truck touring companies, and the Broadway type activities in other cities. The not-for-profit sector includes institutional regional theatres, ethnic and community-oriented professional theatres, experimental professional theatres working on the development of new scripts and new forms of dramatic presentation, and specialized touring groups. The Advisory Group wishes to communicate fully, albeit succinctly, that professional theatre is comprised of a diverse whole. Its very diversity is its strength. No segment of American theatre can thrive without the creative contribution of the others.

Theatre in the United States, in contrast to the live performing art forms of dance, opera, and symphony, has strong for-profit and not-for-profit sectors. Because of the existence of the well-known for-profit sector of theatre (Broadway), because of the existence of the commercial motion picture and television industries, because the public knows that substantial amounts of money may sometimes be made within these media, the public generally perceives theatre as a potential money-making operation which should pay for itself. A common belief is that if theatre is good, it will not lose money. This attitude about theatre applies to the not-for-profit professional theatre as well as to the for-profit theatre. Hence, the belief is that all theatre should be able to at least pay for itself, if not make money.

In contrast, the general public accepts the premise that symphony, opera, and dance need contributed support in order to survive. It is accepted that these art forms cannot pay for themselves through earned income.

As described in the Phase I Report, the not-for-profit professional theatre has grown significantly in number and range of activities only in the last 15 to 20 years. The report also describes the not-for-profit theatre's development of sound management and the high ratio of earned income to operating expense. For example, the Phase I Report points out that among strongly managed regional professional theatres, between 60 and 70 percent of expenses presently are covered by earned income -- a high ratio in the performing arts fields. It indicates that many not-for-profit theatres probably have reached the maximum in their efforts to control costs and to raise levels of earned income while at the same time having increased difficulty in raising contributed income. In a large number of

not-for-profit theatres, attendance is running at over 80 percent of capacity. If these theatres are to maintain their policies of reasonable ticket prices in order to provide access to theatre for all economic groups, if attendance figures continue as high as they are, and if annual inflation is assumed as part of our economic system, then the only way not-for-profit theatre can survive is through increased contributed dollar support. In order to stimulate increased contributed support, the public perception that theatre can and should pay its own way must be changed.

The Advisory Group believes the Federal Government can and should take a strong lead in helping change this perception. It should take a lead in providing additional substantial new fiscal support. It should take a lead through corrective Federal legislation to provide direct and indirect increased public support to professional theatre, and it should encourage appropriate legislative action by non-Federal centers of government.

The information contained in the Phase I Report reveals a need for corrective legislation and revised regulations in the area of taxation.

According to the data included in Phase I, the 1976/77 median annual income earned by actors from employment in live professional theatre amounted to approximately $5,000. This situation is true not only for actors, but also for other theatre professionals. These data demonstrate to the Advisory Group that a majority of theatre professionals, in both the for-profit and not-for-profit sectors, work for salaries in no way commensurate with their training, talent, and experience. Many, therefore, must supplement their professional earnings through other types of employment.

The Phase I study reports that although there is now some kind of professional theatre in every state, large sectors of the public still have no access to live professional theatre, either not-for-profit, or for-profit.

While the for-profit and not-for-profit theatres combine to make the performing art known as professional theatre, a recognition of the differences between them is vital to the determination of a healthy future for theatre in this country. Each sector has its valid role. These roles are not in conflict. Rather, they are complementary. For example, plays originally produced on Broadway routinely are included in the seasons of many not-for-profit theatres; the apparent current fiscal health of Broadway is at least in part attributable to the development of some plays by the not-for-profit sector and their subsequent use on Broadway. It must not be assumed, however, that the move to Broadway of such plays is the answer to the fiscal needs of the not-for-profit theatre. Rarely do such moves provide the originating theatre with substantial new earned income due to the risks of Broadway productions. Currently, more relationships are developing among the not-for-profit and the for-profit theatres. The Advisory Group believes such interrelationships should be encouraged for the benefit of theatre as a whole while recognizing the integrity of the motivation of each sector.

The for-profit professional theatre must strive to make a financial profit for its investors while providing the public with entertainment of high-level artistic and production quality. These plays are offered at a price high enough to defray all production costs and to provide the prospect of a financial return to the investors.

While centered primarily in New York, the for-profit professional theatre includes full road companies touring the country, bus and truck touring companies frequently playing less than full weeks and often one-night stands, as well as a large number of dinner theatres.

Because of the necessity of returning a profit to the investors, there is a natural reluctance on the part of many commercial producers to mount material which they believe might not result in good box office income. Artistic decisions (e.g., the selection of plays, cast sizes, sets) are influenced strongly by box office potential.

While the return of some level of profit to the investor is, of necessity, a primary motivation, the for-profit sector of professional theatre also provides special contributed services to the New York community; e.g., programs for schools, hospitals, the aged, and the handicapped. In addition, it offers internships to theatre trainees. Further, the for-profit theatre contributes to the strengthening of the not-for-profit theatre through grants from foundations such as the Shubert Foundation.

The not-for-profit professional theatre provides a multiplicity of theatre activity with ticket prices scaled at levels to assure accessibility. It includes a wide variety of institutional types: the regional professional theatres; professional theatres which developed within, or for, a specific ethnic community; professional theatres dedicated to the development of new plays or new forms of theatre direction and production.

Primary to the existence of the regional theatre is the production of a season of plays chosen specifically for the community in which the theatre is located. Most include classics drawn from the world's dramatic

literature as well as new works and new forms of theatre which comment on and reveal the contemporary society. In addition to main stage productions and, in some cases, second-stage experimental or developmental work, the professional regional theatre provides a variety of services to the immediate community and region; e.g., touring; performing in hospitals, prisons, and schools; and the development of programs for the elderly, the handicapped, and the economically or socially disadvantaged.

Many ethnically based professional theatres are moving from their original focus of being of and for a specific ethnic community, into broader based urban theatre institutions. These theatres now are searching for ways to move more fully into the economic mainstream of professional theatre while at the same time maintaining ticket prices at a low level. Currently, up to two-thirds of their operating budgets may be expended for the basic costs of facilities, most of which are not large enough to provide an important degree of earned income.

Urban areas also are the locale of a majority of those professional theatres -- often relatively small in budget and in staff -- dedicated to work on new plays and new forms of theatre. In most cases, limited physical facilities preclude earned income from providing a major portion of total income.

Theatre as an art form is concerned with ideas. It celebrates, criticizes, and comments on our society. Generally, the not-for-profit professional theatre provides the environment and opportunity for experimentation for the ultimate benefit of all theatre. This type of activity is equivalent to the research and development programs supported by industry in this country. Risk taking is inherent to creative development. Because not-for-profit professional theatre is dependent for

its continued existence upon contributions from the public and private sectors, risk taking often is fiscally dangerous. There are bound to be some individuals who will be alienated by what they hear and see. Some may withdraw their support as a result of a particular play or performance. Coupled with the perception on the part of many that professional theatre should pay its own way through the box office, risk taking for the further development and strengthening of theatre as an art form can well lead to a reduction in contributed income. As a result, some theatre managements are subjected to increased pressure to select seasons (particularly in the regional theatre) which will assure maximum potential box office income — a move toward mass appeal more appropriate to the for-profit theatre.

The Advisory Group believes the public sector, particularly the Federal Government, should take the lead in support of professional theatre. While perhaps maintaining its current posture of junior partner in terms of total dollars contributed on a national scale, the Federal Government should assume a leadership role in the encouragement of such support from other parts of the public sector as well as from the private sector.

In exercising its mandate to make recommendations for action to meet at least some of the perceived needs of live professional theatre, the Advisory Group stresses the importance to American society of the multi-faceted artistic and economic roles of theatre. The diversity of the Advisory Group membership, representing many different professional theatre constituencies, assured strong difference of opinion. That there has been a high degree of consensus in formulating the recommendations which follow demonstrates the ability and desire of the different segments of American theatre to work together for the common good and the strengthening of theatre as an art form.

The Advisory Group determined it was appropriate to make both general as well as specific recommendations. In addition, where enough information was available, the Group has made detailed suggestions for the implementation of specific recommendations. In other instances, specific recommendations are made without suggestions for implementation. Where the Group could not reach full consensus on a particular recommendation to satisfy a given need, there was consensus that further study should be made. The Advisory Group was unanimous in feeling that the Federal Government should establish some sort of group, similar in composition to the present Advisory Group, to continue investigation and study of the needs of live professional theatre and to make further recommendations to the Federal Government.

B. RECOMMENDATIONS

Based on the information examined by the Advisory Group, it is believed that substantial new Federal funds are necessary for the future health of professional theatre in this country. Recommendations for such direct support are listed below. In addition, the Federal Government is requested to provide indirect support to professional theatre through recommended administrative and legislative action.

The Advisory Group recommends that the Federal Government should make clear its conviction that strong professional theatre is an integral component of this nation's cultural life. It can do so by implementing the following recommendations.

1. Professional Theatre Institutions

a. Increased Federal funds should be provided to enable artistically outstanding not-for-profit professional theatre institutions and organizations to achieve their artistic goals.

The Advisory Group recognizes the vitally important support accorded professional not-for-profit theatre by the National Endowment for the Arts. The Group feels, however, that the amount of money currently available for such support is too limited. With inflation causing a substantial annual increase in basic operating and production costs, theatres already covering close to 70 percent of their operating costs with earned income will be hard-pressed to maintain this ratio. Ticket prices are continually adjusted in response to changing economic conditions; theatre managements look constantly for ways to augment earned income. Even if successful in maintaining this ratio, the remaining 30+ percent (which must come from contributed income of all sorts) will represent an

increasing number of dollars. Without increased public sector dollar support, particularly Federal support, it is probable that the not-for-profit theatre could be forced to make artistic decisions on the basis of potential box office appeal and to raise ticket prices to levels precluding a broad-based audience. Increased support will assure the fiscal strength of artistically outstanding professional theatre institutions and groups. This will enable them to continue producing experimental or new work of artistic merit which may not attract substantial attendance or box office revenue.

As mentioned repeatedly in the roundtable discussions conducted by the Advisory Group and in statements submitted for Advisory Group consideration, strong professional theatre, dedicated to high artistic standards, spawns and and encourages a wide range of avocational theatre activity. Increased Federal support directed toward artistically outstanding theatre institutions and organizations -- irrespective of size or budget -- will encourage stronger artistic goals on the part of non-professionals.

b. Federal dollars should be used to establish revolving funds to provide no-interest loans to theatres to finance cash flow needs.

Not-for-profit sector. Many theatres face serious cash flow problems, particularly before the new season starts each year as well as during the early months of the season. As a result, theatres are forced to borrow funds, normally paying the going interest rate for such loans. Some theatres also use advance subscription money. For theatres not having a subscription audience (e.g., many of the ethnic and experimental theatres), this subscription money resource is not available. Thus, they also must

borrow, if borrowing is at all possible. The payment of interest on the loans adds to the financial problems of the theatres and increases their need to raise additional contributed income.

The Advisory Group recommends the establishment of Federally funded cash flow loan funds, repayable without interest. Such funds could preclude many current cash flow fiscal crises and could result in more realistic fiscal planning and fund raising by the not-for-profit professional theatres.

For-profit sector. The Advisory Group recommends establishment of a similar cash flow loan fund (e.g., by the Small Business Administration) for the for-proft professional theatre, either on a no-interest or low-interest basis. Such a fund could assist greatly in reducing the cost to the private investor of pre-opening expenses and could encourage the for-profit theatre in the risk production of plays of particular artistic merit which might not otherwise be mounted.

c. Federal funding cycles should reflect the multiple year needs of recipient professional theatre organizations.

At present, Federal funds granted in support of theatre (e.g., those from the National Endowment for the Arts) are provided on a one year basis. Under present legislation, the Endowment could grant funds for a multiple year period. It is, however, obviously reluctant to do so as Congress appropriates funds to it on an annual basis. Multiple year funding of the Endowment by Congress (e.g., on the pattern already established for the Corporation of Public Broadcasting) would enable the Endowment to provide multiple year grants to theatres. This would enable theatres to plan more effectively than they now are able to do.

Many professional theatres have developed long range multiple year plans, but are unable to move ahead with them with assurance because it is not known from year to year what level of Federal funding they will receive. Multiple year funding would relieve pressure on small administrative staffs from the time consuming annual grant application process. The Advisory Group believes that if the Federal Government takes the lead in multiple year funding, other donors might be encouraged to do the same, freeing time for theatre leaders to devote themselves more fully to their artistic and managerial responsibilities.

2. Professional Theatre Personnel

a. Increased Federal funds should be provided to assure theatre professionals salaries at levels commensurate with their training and experience in their professional fields.

A constantly recurring theme heard by the Advisory Group from virtually all professional theatre personnel is that talented trained professionals earn relatively little in the pursuit of their craft. As a result, many talented professionals leave theatre to pursue more lucrative employment in television or film in order to satisfy more fully their personal and family fiscal needs. Theatre thus loses many in whom it has invested through training and experience.

A higher level of basic annual earning for the theatre professional must be sought. The Advisory Group recommends new increased levels of funding for theatre institutions to enable them to achieve this. Such funding will provide the talented theatre professional with the opportunity and the right to work in his chosen profession.

b. Increased Federal funds should be provided to strengthen and expand selected training programs for professional theatre.

The Advisory Group believes that on a national basis there is not enough opportunity for theatre professionals to receive appropriate training for their craft. On a per-student basis, the present cost of professional training for theatre is very high in strong training programs. This high cost of professional training, plus the limited availability of scholarship money, discriminates against entry into such programs by those who are not financially well off. The Advisory Group recommends augmented Federal funds to provide increased accessibility to existing professional training programs as well as to strengthen them. The Advisory Group also recommends Federal encouragement of new programs and more career guidance.

Provision also should be made for the establishment of on-going training opportunities for practicing theatre professionals to enable them to maintain and increase their efficiency in their profession.

The Advisory Group recommends further that Federal agencies sponsoring existing or planned manpower training programs should include the training of theatre professionals in their plans, keyed to the specific needs of the professional theatre.

c. Federal funds should make Federally subsidized employment available in professional theatre.

The Phase I Report indicates that theatre employment periods often are of short duration, resulting in frequent spells of unemployment. The Advisory Group recommends that appropriate Federal manpower policy be developed to address this problem. The Group also recommends that those Federal agencies dealing with manpower and employment problems as well as

with the stimulation of employment (e.g., Labor, Commerce, HEW, HUD) should direct part of their funding toward the employment of professionals in the professional theatre.

3. Increased Accessibility

a. Increased direct and indirect Federal support should be directed toward: 1) greater accessibility to live professional theatre through touring to those geographic areas not now reached by professional theatre; 2) greater accessibility to live professional theatre by youth of the country through support of school tours and student ticket subsidy programs; 3) greater accessibility by all sectors of the population to professional theatre groups reflecting our pluralistic society.

Despite touring by both not-for-profit professional theatre companies and for-profit road companies, there still remain large areas of the country where significant numbers of the American people have no access to professional theatre. The National Endowment for the Arts has taken an important step in providing greater accessibility to live professional theatre through its support of touring by some not-for-profit professional theatres. Starting with a pilot program in fiscal years 1973 and 1974 involving two theatres, the Endowment Theatre Program in fiscal year 1979 is providing limited support to enable 26 theatres to tour for a total of 86 weeks in 245 communities in 39 states.

The Advisory Group recommends an increase in the funds available for this program and the encourgement of participation by professional theatre groups reflecting the cultural diversity of our pluralistic society. Further, the Advisory Group recommends that increased Federal funds be available to reimburse professional not-for-profit theatres for the cost of touring programs to schools as well as for the cost of tickets made available at significantly reduced prices to students attending productions in the theatres.

In recent years, touring by national companies from the for-profit professional theatre has been reduced. This is due primarily to the lack of appropriate performing facilities in many areas of the country. In some places, an inadequate substitution has taken place with the one-night-stand performances by bus and truck touring companies. These performances are often of lower artistic and production levels than that which can be provided by the national company tours. At present, among the cities where the for-profit professional theatre feels it may be able to meet touring expenses are the following: Boston, Chicago, Detroit, Los Angeles, Miami, Philadelphia, San Francisco, and Washington, D.C.

The Advisory Group recommends that the Federal Government investigate ways by which additional facilities might be encouraged in other sections of the country to provide greater accessibility to a much larger segment of the population to high level artistic productions of the professional for-profit theatre. In addition, the Advisory Group recommends that the Federal Government encourage the creation of structures for tour sponsor development on the local level.

4. Taxation

a. Tax policy should be modified to provide encouragement to the further development of professional theatre.

Taxes are a burden to both for-profit and not-for-profit theatres as well as to working theatre professionals. While the theatre community recognizes its responsibility to bear its fair share of the burdens of public finance, the Advisory Group believes current tax policy discriminates unfairly against theatre and the people employed by it.

Throughout the country, theatre is a major positive force in both the cultural and economic life of our communities. It serves as a major factor in stemming the decline of the central cities by attracting people to visit, live in, and work in the cities. Since the nature of the tax burdens on the for-profit and not-for-profit theatre are rather different, they are considered separately.

The For-Profit Theatre. The Advisory Group recommends that Federal income tax law be changed in order to provide tax incentives to promote the financial stability of the for-profit theatre.

The for-profit theatre pays all of the taxes normally associated with businesses. Partners are liable for income taxes on operating profits and on income realized from resale of rights, as well as for capital gains taxes on net income realized from resale of shares in limited partnerships. The detailed financial data examined in the Phase I Report for Broadway productions financed through the public sale of partnership shares shows that various tax expenses are incurred by the companies and theatre owners during production and operation. For Broadway productions alone, taxes amounted to approximately $4.3 million during 1976/77. This represents almost thirty percent of the estimated total investment in Broadway productions during the same period. According to the Phase I data, the resulting after-tax rate of return to the investor amounted to approximately 6.5 percent -- a low rate of return on a high risk investment.

At present, the tax structure discourages investment in theatre in comparison with other forms of for-profit activity. Several forms of tax incentives available to other sectors of industry are unavailable to for-profit theatre production companies and theatres. For example,

investment in theatrical production companies is ineligible for the investment tax credit. Similarly, provisions of the law which treat appreciation (or depreciation) of capital assets differently from ordinary income (so-called "capital gains" provisions) also are not available on authorship rights, production rights, or partnership rights.

Among actions recommended to the Federal Government by the Advisory Group is legislation to provide: 1) a new subchapter of the Internal Revenue Code for theatrical production companies similar to special subchapters for banking, insurance companies, regulated investment companies, and real estate investment trusts; 2) clarification of existing law to allow theatrical production companies to capitalize pre-opening costs, to treat all income up to the amount capitalized as a recovery of investment, and, after full recovery of investment, to treat all income as ordinary income; 3) for a theatrical production tax credit for investments by theatrical production companies in other theatrical productions; 4) capital gains treatment to the sale of theatrical production rights; 5) incentives for reinvestment of ordinary income realized by investors in theatrical production companies by providing for a limited exclusion from income for profits from a theatrical production company; and 6) capital gains treatment for royalties received by authors from theatrical production companies solely for first production rights of their work.

By acting positively on the above recommendations, the Federal Government would provide stimulating incentives for a healthier for-profit professional theatre in this country.

The Not-For-Profit Theatre. A number of taxes affecting the not-for-profit theatre still exist in different parts of the country (e.g.,

sales taxes on tickets and real estate taxes). Of the twenty-four states with state admission taxes, fifteen exempt not-for-profit theatres. The nine states not granting such exemption are: Florida, 4%; Georgia, 3%; Idaho, 3%; Kansas, 3%; Minnesota, 4%; Nebraska, 2.5%; West Virginia, 3%; Wisconsin, 4%; and Wyoming, 3%. A recent survey by The Associated Councils for the Arts indicates that fifteen municipalities also impose admission taxes. They are: Atlanta, Chicago, Denver, Lincoln, Minneapolis, Norfolk, Oklahoma City, Omaha, Phoenix, Pittsburgh, Richmond, Spokane, Tacoma, Tulsa, and Tuscon. Thus, for example, a not-for-profit theatre in Minneapolis pays a total of 7% admission tax on each ticket sold (4% state plus 3% city). Real estate taxes currently ranging from $700 to $15,000 also are levied on not-for-profit theatres in many counties and municipalities.

The data included in the Phase I Report indicates that $1.7 million was paid in taxes in 1976/77 by the not-for-profit theatre. This represents approximately 2 percent of the total operating expenditures of those theatres as well as 20 percent of the direct support provided by the public sector.

The Advisory Group finds it incongruous that not-for-profit theatres may well be using Federal and/or state and municipal grants to pay Federal, state, county, and municipal taxes. Although the Advisory Group understands that the Federal Government cannot force changes in state, county, or municipal legislation, it recognizes the power of the Federal Government to "encourage" such changes.

The Advisory Group recommends that the Federal Government should modify its existing statutes in regard to unrelated business income for not-for-profit theatres. If the income gap widens in the not-for-profit

theatre world, increased pressure will be placed on theatres from both public and private sector donors to raise their level of earned income. Many theatres already are at or near their maximum attendance level. One of the remaining avenues open to the not-for-profit theatres is to generate increased earned income through the development of unrelated business income activities. Exemption of such income from taxation could encourage its development and help offset the steadily increasing dependence on contributed income.

Finally, the Advisory Group recommends continued deductibility of the cost of theatre tickets used as a business expense. This action would continue to help both the not-for-profit and for-profit theatre.

5. Federal Leadership

a. The National Endowment for the Arts should be maintained and strengthened as an independent Federal agency responsible for leadership support to the professional arts.

The Advisory Group recommends strongly against the inclusion of the National Endowment for the Arts in a new Department of Education. Professional theatre as a living art form is not education in the traditional sense. A Department of Education must key its activities primarily toward the needs and goals of institutional education: primary, secondary, post-secondary, and vocational. Theatre does have value for, and a role in, broad educational policies and programs, but it must retain its own validity as an art form.

Since its establishment in 1965, the National Endowment for the Arts has had an outstanding record of support for the encouragement of professional artistic standards in theatre. The Endowment has demonstrated

a willingness and ability to differentiate between professional and avocational artistic activities and has devoted a substantial part of its limited resources to support of the professional sector.

In order to continue and to increase such support, the Advisory Group believes the Endowment must remain an independent Federal agency. The Endowment should serve as the leading element in the Federal Government's role in devising means for professional theatres to better aid themselves.

b. The Federal Government should encourage increased international exchange of live professional theatre.

The Advisory Group recommends substantially increased Federal support toward the cost of performance abroad by American professional theatres. While encouraged by the establishment of the International Communication Agency, the Advisory Group is concerned that eligibility for participation in an expanded professional theatre exchange program be determined by professionals.

Because live American professional theatre is such a strong leader in world theatre today, Federal funds should be made available in amounts sufficient to cover the travel costs of an increased number of professional theatres invited to perform abroad. The United States is one of the few countries in the world which has quality professional theatre and which does not subsidize travel to foreign countries to any meaningful degree. The Advisory Group recommends substantially increased Federal funds for this purpose.

c. The Federal Government should provide for the continued existence of an Advisory Group representative of all professional theatre constituencies.

The deliberations of the present Advisory Group demonstrate the deep interest on the part of all professional theatre constituencies in working together for the good of theatre as a whole. Due to the time and fiscal restraints of the present study, it has been impossible to deal effectively with all problems and perceived needs of the live professional theatre in the United States. The Advisory Group recommends strongly that the Federal Government provide for the existence of an independent Advisory Group comprised of representatives of diverse theatre interests. Such a continuing Advisory Group would be charged, for example, with supervising on a continuing basis further studies, as well as formulating specific recommendations to the government.

6. Further Studies

a. The Advisory Group recommends that studies be made of the following areas of concern so that meaningful recommendations, if appropriate, can be formulated.

1) Questions of the impact of labor/management relations. For example: Does the current New York Showcase Code inhibit the development and potential success of new works? Is it proper for theatre professionals to subsidize the development of new plays? What is the economic impact on professional theatre of current regulations of a number of the craft unions?

2) The area of taxation of the individual theatre artist. For example, the wide fluctuations in theatre professionals' year-to-year earnings are not dealt with appropriately by income averaging. Is there another approach which might better serve the needs of both the individual artist and the Internal Revenue Service? The recent limitation placed upon the deductibilty of expenses relating to work spaces in the theatre artist's residence is another serious problem, as is confusion, for Federal tax purposes, over the definition of the term "employee." The Advisory Group feels a careful study of current tax laws should be made insofar as they affect the professionl theatre person.

3) The adequacy of performing spaces throughout the country should be studied in connection with the Advisory Group's strong recommendation for greater access to professional theatre.

4) Employment possibilities for those trained to be professional theatre persons. What has happend to those who have majored in college and university theatre programs? What is the role of educational theatre in this country? What needs does it fill? In existing programs, what distinction is made between programs using theatre as an educational tool and programs using education as a means of training for theatre?

5) The question of "national" theatre. In terms of this country's geography, needs and resources, should there be an institutionalized national theatre? Is a uniquely American national theatre already in existence, or would a different type of institutional approach better serve the art form and the people?

6) A study of the role of amateur/avocational theatre organizations should be made. What, for example, is their role in the increased development of professional theatre and do such groups exist because of a demand not met by existing professional theatres?

7) The question of union and ethnic membership on boards and panels dealing with professional theatre, both inside and outside the government. Some members of the Advisory Group feel there is not enough union, ethnic and minority representation in public and private decision-making or recommendation-making groups. A study is recommended of the extent to which the interests of these groups are reflected in decisions affecting the professional theatre.